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UNITED CIGAR-WHELAN STORES CORPORATION

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 1938

UNITED CIGAR-WHELAN STORES CORPORATION

NOTICE TO THE STOCKHOLDERS

PLEASE TAKE NOTICE that a change has been made in the By-Laws of the Corporation with respect to the holding of annual meetings of stockholders. Section 1 of Article I, as amended, now reads as follows:

> "SECTION 1. Annual Meetings. An Annual meeting of the stockholders for the election of directors and for the transaction of any other business that may properly come before the meeting shall be held at the office of the Corporation, in the City of Wilmington, State of Delaware at 11 o'clock A. M. on the last Wednesday in August of each year, if not a legal holiday, and if a legal holiday, then on the first day following which is not a legal holiday."

Very truly yours,

April 17, 1939

WALTER G. BAUMHOGGER
President

BOARD OF DIRECTORS

Gladden W. Baker
Walter G. Baumhogger
Louis K. Comstock
Robert H. Hadley
Ray C. Kramer
Edward A. LeRoy, Jr.
Walter S. Mack, Jr.
Robert J. Marony
Lester G. Ott

* * *

OFFICERS

Walter S. Mack, Jr.	*Chairman of the Board*
Walter G. Baumhogger	*President and Chairman of the Executive Committee*
Lester G. Ott	*Vice President*
Robert H. Hadley	*Vice President*
Edward E. Cody	*Vice President and Treasurer*
Michel A. Bouvier	*Vice President*
Henry Goldberger	*Vice President*
Harry Rubenoff	*Secretary and General Counsel*
John A. Hampson	*Asst. Secretary and Asst. Treasurer*
Armand J. Toussaint	*Comptroller*

TRANSFER AGENTS

Preferred and Common Stock	Registrar and Transfer Company, New York, N. Y.
Common Stock	Registrar and Transfer Company, Jersey City, N. J.
Common Stock	The Trusts and Guarantee Company, Limited, Toronto, Canada

REGISTRARS

Preferred Stock	Central Hanover Bank & Trust Company, New York, N. Y.
Common Stock	Bankers Trust Company, New York, N. Y.
Common Stock	Commercial Trust Company of New Jersey, Jersey City, N. J.
Common Stock	The Trusts and Guarantee Company, Limited, Toronto, Canada

To the Stockholders of

UNITED CIGAR - WHELAN STORES CORPORATION:

There is submitted herewith the Annual Report of your Corporation for the year ended December 31, 1938, showing the Consolidated Balance Sheet as at December 31, 1938, and Consolidated Statements of Profit and Loss and Earned Surplus for the year.

On Pages 5, 6 and 7 of this report is a copy of our written instructions to Price, Waterhouse & Co., under which they conducted their examination of the balance sheet items as of December 31, 1938, and related statements of profit and loss and earned surplus for the year ended on that date.

On Pages 11 and 12 of this report is the certificate given to your Board of Directors by Price, Waterhouse & Co., after having concluded their examination of your Corporation's accounts.

Total current assets at the end of the year amounted to $8,646,012.90. Total current liabilities were $3,213,226.45. Ratio of current assets to current liabilities as at December 31, 1938, was 2.7 to 1. On a comparable basis, ratio of current assets to current liabilities as at December 31, 1937, was 2.6 to 1.

Proceeds from sales of real estate were used to retire $2,820,700.00 principal amount of the Corporation's Five Per Cent Sinking Fund Bonds in 1938, and Bonds in the principal amount of $69,000.00, representing the 1938 Sinking Fund payment, were also retired. Bonds in the principal amount of $628,600.00 were held in the Corporation's treasury on December 31, 1938, an increase of $84,100.00 over the amount held at the end of the preceding year. The Corporation's outstanding indebtedness on its Five Per Cent Sinking Fund Bonds was reduced in 1938 by $2,973,800.00, thus effecting a saving in annual interest of $148,690.00. The profit resulting from this reduction of outstanding bonds was $721,321.84, representing the excess of principal amount over cost thereof.

During the year 1938, the Corporation's real estate mortgage obligations and the Mortgage Bonds of a subsidiary were reduced from $1,407,287.50 to $994,000.00.

Net sales volume for the year 1938 was $50,273,470 as compared with $54,919,404 in 1937, a decrease of approximately 8.5%. On December 31, 1938, the Corporation had in operation 181 drug stores, 499 cigar stores, and 837 agencies; a decrease of 5 drug stores and 37 cigar stores, and an increase of 42 agencies, as compared with December 31, 1937.

Loss from operations before depreciation and amortization and bond interest amounted to $94,298.88. Depreciation and amortization during 1938 amounted to $427,497.28. Interest on bonds during 1938 amounted to $164,736.44. Loss from operations, after depreciation and amortization and bond interest, amounted to $686,532.60. The principal reasons for this loss are: decline in sales volume; high operating expense ratios; and certain extraordinary expenses and charges amounting to approximately $198,000, most of which are not likely to recur in 1939.

After giving effect to profit from the purchase of bonds, profits from the sale of real estate and mortgages receivable and recovery on a closed bank claim and after charging off the loss from the sale of the stock of The Lincoln, Inc., and the amount of settlement to effect cancellation of the employment contract with the former President, there is a net charge to Earned Surplus for the year of $113,110.40.

On June 30, 1938, an agreement was entered into with the former President, under which his employment contract was terminated.

On July 29, 1938, I was elected Chairman of the Executive Committee, assuming the duties of President and was formally elected to that office on October 27, 1938. (From 1921 to 1936, I had been in the employ of Montgomery Ward & Company, during which time I occupied a number of executive positions, including those of Vice President and General Merchandise Manager and Retail Vice President. Subsequently, I was elected President of Certain-teed Products Corporation, from which company I resigned in October, 1938.)

Mr. Lester G. Ott was elected Vice President of the Corporation on August 25, 1938, and is General Operating Manager. (From 1921 to 1938, Mr. Ott had been in the employ of W. T. Grant Company, occupying such positions as Store Manager, Merchandising Manager and District Operating Manager.)

Mr. Robert H. Hadley was elected Vice President of the Corporation on August 25, 1938, and is in charge of Sales and Merchandising. (From 1923 to 1938, Mr. Hadley had been in the employ of S. H. Kress & Company, during which time he held nearly every position in the business from Store Manager to Buying and Merchandising Manager.)

On July 25, 1938, Mr. Edward E. Cody was employed as my assistant and on December 13, 1938, he was elected Vice President and Treasurer. Mr. Cody brings both accounting and retail experience to the Corporation. He was at one time in the employ of Touche, Niven & Co., Certified Public Accountants and later, Comptroller of Montgomery Ward & Company.

Due to a realignment of executive duties, Mr. Harry Rubenoff, on December 13, 1938, resigned as Treasurer, but retains his position as General Counsel and Secretary.

Mr. Michel A. Bouvier, Vice President, continues in charge of Agency Operations and Mr. Henry Goldberger, Vice President, is in charge of the operations of the New York Metropolitan stores.

On February 20, 1939, Mr. Armand J. Toussaint was appointed Comptroller of the Corporation. Mr. J. A. Hampson continues as Assistant Secretary and Assistant Treasurer.

In selecting the officers who now constitute the executive management of your Corporation, your Directors endeavored to obtain men whose past records and experience seemed to fit them for the task of rehabilitating your Corporation.

The program that has been prepared for the improvement of your Corporation's affairs includes, but is not limited to, the following important points:

1. Better buying of merchandise.
2. Better assortment of merchandise in the respective stores.
3. Better equipment layout in the stores.
4. Better presentation of merchandise in the stores on the improved equipment.
5. Increased rate of inventory turnover.
6. Better planned and more consistent sales program.
7. Better supervision of stores.
8. Modernization of existing stores.
9. Opening of new stores and additional agencies.
10. Closing of unprofitable stores.
11. Better handling of personnel matters, so that the organization generally will be more efficient and more loyal.
12. Reduction of overhead expenses.

On Page 13 of this report, are pictures of the cigar store, located on the southeast corner of Madison Avenue and 42nd Street, New York City, showing the store in its previous condition and also after modernization completed on November 3, 1938. Ten cigar stores have now been similarly modernized. This is an experiment, the results of which will be carefully appraised before deciding whether to proceed further with this type of modernization.

On Page 14, are shown pictures of a United-Whelan Drug Store opened December 17, 1938, at 37-11 82nd Street, Jackson Heights, Long Island, New York. This store illustrates the type of "general-merchandise-drug store" which the management believes it is likely to open and operate in the future. Two to three times as much merchandise can be effectively presented to patrons in this type of store as can be shown in an orthodox drug store having the same approximate square foot area; in addition to which the merchandise can be better classified by family groups and can be much more attractively displayed.

It should be pointed out that the modernization, during 1939, of existing stores is a particularly important part of your management's plans; and will be continued in subsequent years, until the program is completed. Unfortunately, many of the Corporation's old stores are out of date in equipment and physical facilities and need to be renovated, in order to meet the competition for patronage that is offered us by competitors who operate a newer and more attractive type of store.

In January, 1939, your Corporation purchased for cash, the Best Drug Stores chain on terms which the Directors believe to be favorable. This is a chain of 11 drug stores in Southern California, most of which stores are in Los Angeles. Exterior and interior pictures of one of these stores are shown on Page 15 of this report.

The year 1938 was, as the figures contained herein indicate, a most unsatisfactory year for your Corporation. Nevertheless, much has been accomplished. Management has been strengthened; merchandising has been and is continuing to be improved; inventories are clean; many controllable operating expenses have been reduced; personnel difficulties are being straightened out; some unprofitable stores have been eliminated; new stores, which appear to give promise of future profits, are being added; much will be done during 1939 to modernize and improve existing stores.

It must not be assumed that all of our problems have been solved, nor that all of our difficulties lie behind us. Additional time and a great deal of hard work are required before this Corporation, one of the oldest chain store companies in America, will again take its place among those that earn a satisfactory net profit. Your management believes, however, that it has appraised the situation fairly and that it knows what needs to be done to place the Corporation eventually on a permanently sound and profitable basis.

It will be greatly appreciated if stockholders will give United Cigar and Whelan Drug Stores the benefit of their patronage and if they will try to see to it that members of their families and their acquaintances and friends do likewise.

Very truly yours,

WALTER G. BAUMHOGGER,

President.

April 17, 1939

January 3, 1939

MESSRS. PRICE, WATERHOUSE & CO.
56 Pine Street,
New York, N. Y.

Gentlemen:—

This is to inform you that at a meeting of the Board of Directors of United Cigar-Whelan Stores Corporation, held December 29, 1938, it was voted to reappoint your firm as auditors, for the purpose of making an examination of the books and accounts of the company and its subsidiary companies for the year ending December 31, 1938; said examination to be in sufficient detail to enable you to express an opinion as to whether the balance sheet and related statement of profit and loss to be included in this company's annual report to stockholders for the year 1938 fairly present the position of the company and its subsidiaries as at December 31, 1938 and the results of their operations for the year ended on that date; said examination also to be of sufficient scope to enable this corporation to furnish the financial statements and schedules required by the Securities and Exchange Commission, the New York Stock and Curb Exchanges, and the Toronto Stock Exchange. While your examination is to be conducted along the lines of a "balance sheet examination" and shall follow generally the program outlined in "Examination of Financial Statements by Independent Public Accountants," published by the American Institute of Accountants in January, 1936, it is not intended that the said examination be limited to the scope of such examination as is outlined in the aforementioned program published by the American Institute of Accountants in January, 1936. Therefore, although it is understood that your examination will include, but will not necessarily be limited to, the work outlined below, we wish to specifically instruct you — in corroboration of our previous verbal instructions — with reference to the following points:

(1) *Cash* on hand in New York office at 330 West 42nd Street, and in the Chicago office at 134 North La Salle Street and at the Brooklyn and San Francisco depots at 82-39th Street, and 701 Bryant Street, respectively, to be counted on or about December 31, 1938. Cash in stores at December 31, 1938 amounting to approximately $109,000 not to be counted by you (inasmuch as it would be physically impossible for you to do so) but you shall obtain confirmations from at least ten percent of the stores as to the amount of the cash on hand representing store change funds and charge account funds, if any, at that date. Cash in banks as at December 31, 1938, as shown by the cash books of the company and its subsidiaries to be reconciled with certificates obtained directly by you from depositaries.

(2) A test circularization as of December 31, 1938 to be made of *notes and accounts receivable* from individual debtors, such circularization of Sundry Allowances Receivable to include all items over $2,000; and of all other notes and accounts receivable to include all items over $500. in amount and to total not less than fifty percent of the amount of notes and accounts receivable outstanding; of the remaining amount, at least 10 percent of the total number of the remaining debtors. Consideration to be given by you to the probable value of such notes and accounts receivable and to the adequacy of the reserves thereagainst. Consideration also to be given by you (from the point of view of making available as much information as is necessary on this important subject) to the desirability of aging of the accounts receivable.

(3) a. Review the method followed in taking *store inventories;* make a test check to determine that home office store inventory records are adjusted to physical inventories as they are taken; determine that physical inventories were taken in each store in 1938, at the rate of at least twice a year.

b. Investigate method of *taking physical inventories in the Brooklyn and San Francisco depots* and have your representatives present during the taking of the physical inventory on or about December 31, 1938, at which time they shall make test checks of the accuracy of the counts made by our employees, and also test checks of some of the merchandise that is in cases, by opening some of such cases and counting the merchandise that is therein. (It is recognized that in doing this you cannot take responsibility for knowing whether the inventory counted at that time was the property of the company, but will have to accept our word that it is.)

c. You will make such test checks of recent merchandise invoices paid by us, and such other independent check direct with sources of supply, as you may consider necessary to assure yourselves that the total of the merchandise inventories as of December 31, 1938 has been properly priced at cost or market, whichever is lower.

d. Insurance coverage—You will review the company's insurance policies to assure yourselves that coverage is carried in an amount sufficient to protect the company inventories as shown in the Balance Sheet at December 31, 1938.

(4) A test circularization as of December 31, 1938 to be made of *merchandise advances to agents* which will be equal to not less than fifty percent of the amount of the advances outstanding and of the remainder outstanding at least ten percent of the total number of agents.

(5) *Securities deposited under lease agreements;* other securities, mortgages receivable on real estate and claims against closed banks to be physically examined or confirmations obtained directly by you from depositaries or debtors. Consideration to be given to the adequacy of the reserves against such items.

(6) Test checks to be made of the propriety of *additions to real estate, furniture, fixtures and equipment, leasehold improvements and construction in progress* by reference to invoices or other pertinent documents. Depreciation on buildings, furniture, fixtures and equipment to be checked to see that it has been provided in accordance with past practice, and that the rates are comparable to those recognized as adequate for that type of depreciable asset. Amortization of improvements to leaseholds to be checked to see that such amortization is being taken substantially over the life of the leases. You will, by making test checks, attempt to assure yourselves that additions to real estate, furniture, fixtures and equipment, leasehold improvements and construction in progress, are properly included in these various asset accounts, and are not items which should have been or should be charged to current expense. Test checks to be made of the sales and/or disposal of real estate, furniture, fixtures and equipment and leasehold improvements, and test checks of the respective reserves in connection therewith.

(7) Test checks to be made to determine that the *prepaid items* included under deferred charges as of December 31, 1938 are proper charges to future operations and that the other items included thereunder are proper deferred items.

(8) A test circularization as of December 31, 1938 to be made of *accounts payable* which will be equal to not less than fifty percent of the amount of accounts payable, and of the remainder of accounts payable, at least ten percent of the total number of vendors.

(9) Any *notes payable* at December 31, 1938 to be confirmed by you through correspondence with creditors.

(10) Review method used by company and its subsidiaries in setting up *accrued liabilities* and determine that amounts provided at December 31, 1938 are substantially adequate on the basis of information to be obtained by you during your examination.

(11) Review computation of *provision for Federal income tax.*

(12) Substantially all *agents' deposits* to be confirmed by correspondence with agents.

(13) Investigate the major entries to the *accrued administration and reorganization expense account.*

(14) Obtain confirmations from the Trustee as to the amount of *Five Per Cent Sinking Fund Bonds* outstanding at December 31, 1938, and from the mortgagees as to the amount of real estate mortgage obligations outstanding at December 31, 1938. The Five Per Cent Sinking Fund Bonds in the treasury to be counted by you as at December 31, 1938.

(15) Obtain certificates from the registrars and transfer agents as to the *number of shares of preferred and common stock outstanding* at December 31, 1938. The common stock in treasury to be examined by you as of December 31, 1938.

(16) Changes in the *surplus accounts* during the year to be reviewed by you.

(17) Test checks to be made by you of the *profit and loss accounts* in order to satisfy yourselves that the statement of profit and loss for the year fairly presents the results of the operations of the company and its subsidiaries.

The letters which it is customary for you to obtain from officials of the company relative to notes and accounts receivable, merchandise inventories and liabilities will be furnished you by responsible officers of the company, as may be designated by the President.

If during the course of your work any question arises as to the procedure to be followed in making an examination of certain of the accounts, e.g., sending second requests to debtors and creditors, you should discuss such questions with the President and Treasurer of the company and a mutually satisfactory program will be agreed upon.

We shall expect that the scope of your examination will give due consideration to the system of internal check regularly maintained by employees of the company.

Yours very truly,
(Signed) WALTER G. BAUMHOGGER,
President

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February 24, 1939

MESSRS. PRICE, WATERHOUSE & CO.
56 Pine Street,
New York, N. Y.

Gentlemen:—

The instructions contained in paragraph two of our letter dated January 3, 1939, dealing with the circularization of notes and accounts receivable from debtors, were not intended to include the circularization of store accounts receivable which are reflected on the books in advances for charge accounts, inasmuch as the circularization of these accounts would be impracticable.

The books show that the outstanding balance at December 31, 1938 in the amount of $41,172.66 has been reduced at the end of January to approximately $8,000.00.

Very truly yours,
(Signed) WALTER G. BAUMHOGGER,
President

UNITED CIGAR - WHELA

AND SUBSIDI

CONSOLIDATED BALANCE

ASSETS

Current Assets:			
Cash in banks, in transit and on hand		$1,596,949.05	
Notes and accounts receivable:			
Trade	$ 334,307.07		
Other	278,588.14		
	$ 612,895.21		
Less—Reserve for doubtful notes and accounts	43,956.33	568,938.88	
Merchandise inventories at cost or market whichever is lower (certified by responsible executives and officers as to quantity and marketable condition)		5,909,249.97	
Merchandise inventories with agents		570,875.00	
			$ 8,646,012.90
Mortgages Receivable on Real Estate, Less Reserve			119,833.37
Miscellaneous Investments and Claims, Less Reserves			86,227.61
Fixed Assets:			
Real estate owned in fee (see Note A)	$1,558,661.98		
Less—Reserve for depreciation on buildings	36,587.37	$1,522,074.61	
Furniture, fixtures and equipment (see Note B)	$4,384,719.78		
Less—Reserve for depreciation	2,805,502.14	1,579,217.64	
Improvements to leaseholds, less amortization		675,875.65	
Construction in progress		111,838.09	
			3,889,005.99
Deferred Charges:			
Unexpired insurance premiums		$ 87,721.75	
Prepaid rent and lease deposits		86,530.84	
Deferred taxes and prepaid licenses		102,289.33	
Supplies		59,125.84	
Miscellaneous		45,709.56	
			381,377.32
			$13,122,457.19

Note A—Real estate owned in fee is carried at values based on an appraisal at June 30, 1936, by the then head of the Real Estate Department of the company, plus subsequent additions at cost.

Note B—Furniture, fixtures and equipment include approximately $1,100,000 on which the reserve for depreciation is equal to the asset.

STORES CORPORATION

COMPANIES

IEET — DECEMBER 31, 1938

LIABILITIES

Current Liabilities:			
Accounts payable		$2,475,001.35	
Accrued taxes		317,231.45	
Accrued interest		40,678.87	
Other accrued liabilities		224,425.56	
Provision for Federal income taxes		95,032.50	
Agents' deposits, etc.		60,856.72	
			$ 3,213,226.45
Funded and Mortgage Debt:			
Five Per Cent Sinking Fund Bonds due October 1, 1952:			
Issued, less retired	$3,057,100.00		
Less—in treasury	628,600.00	$2,428,500.00	
Real estate mortgage obligations (including $100,000 demand obligation)		994,000.00	
			3,422,500.00
Reserve for Contingencies			500,000.00
Capital Stock and Surplus:			
Cumulative Five Dollar Preferred Stock:*			
Authorized—67,000 shares without par value (entitled on dissolution or liquidation to, and redeemable at, $100 per share and accumulated dividends)			
Issuable under the Plan of Reorganization—63,657 shares at stated value of $75 per share (see Note C)		$4,774,275.00	
Common Stock:			
Authorized—6,000,000 shares of ten cents (10¢) par value			
Issuable under the Plan of Reorganization—5,709,924 shares (excluding 12,000 shares held in treasury)		570,992.40	
Initial Surplus at December 31, 1938		553,857.57	
Earned Surplus at December 31, 1938		87,605.77	
			5,986,730.74
* Cumulative dividends not declared or accrued to December 31, 1938 amounted to $450,903.75.			
			$13,122,457.19

Note C—At December 31, 1938 the excess of the liquidating value of the Cumulative Five Dollar Preferred Stock, including dividend arrears, over the stated value of such stock amounted to $2,042,328.75.

UNITED CIGAR - WHELAN STORES CORPORATION
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FROM OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1938

Store and agency operations:		
Net sales after deducting stamp and sales taxes		$50,273,470.13
Cost of sales		38,060,258.22
		$12,213,211.91
Commissions from public telephones, vending machines, etc., and sales of display space		1,500,686.81
Gross profit and other store operating income		$13,713,898.72
Store, depot and agency operating and general expenses (before depreciation and amortization)		13,891,262.70
Loss from store and agency operations, before depreciation and amortization		*$ 177,363.98*
Profit from real estate operations, before depreciation and amortization		119,871.97
Other income:		
Dividends and interest received	$ 14,552.92	
Miscellaneous	14,991.65	29,544.57
		$ 27,947.44
Other charges:		
Loss on disposition of furniture, fixtures and equipment	$ 45,866.37	
Miscellaneous	20,485.07	66,351.44
Loss from operations before depreciation and amortization and bond interest		*$ 94,298.88*
Less: Depreciation and amortization		427,497.28
Loss from operations before bond interest		*$ 521,796.16*
Less: Interest on Five Per Cent Sinking Fund Bonds		164,736.44
Loss from operations after bond interest		*$ 686,532.60*

CONSOLIDATED STATEMENT OF EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1938

Earned Surplus at beginning of year		$ 200,716.17
Add:		
Profit derived from purchases of the company's Five Per Cent Sinking Fund Bonds, representing the excess of principal amount over cost thereof	$721,321.84	
Recovery on account of claim against closed bank	100,000.00	
Profit derived from sales of real estate and mortgages receivable, representing excess of amount received over book value thereof	52,524.19	873,846.03
		$ 1,074,562.20
Deduct:		
Loss from operations after bond interest, as shown above	$686,532.60	
Loss on disposition of investment in The Lincoln, Inc.	225,423.83	
Cancellation of executive's employment contract	75,000.00	986,956.43
Earned Surplus at December 31, 1938		$ 87,605.77

PRICE, WATERHOUSE & CO.

56 Pine Street
New York, April 17, 1939

To the Board of Directors of

United Cigar-Whelan Stores Corporation:

We have made an examination of the balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1938, and of the related statements of profit and loss and surplus for the year ending on that date.

In conducting this examination we have followed generally the program outlined in "Examination of Financial Statements by Independent Public Accountants," published by the American Institute of Accountants in January, 1936, but have not limited our examination to that program. Our examination included, but was not limited to, the specific instructions given to us in your letters dated January 3, 1939 and February 24, 1939.

We examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies. We also made a general review of the accounting methods and of the profit and loss and surplus accounts for the period, but we did not make a detailed audit of the transactions.

Our examination included the following:

Actual count of cash on hand in New York office, Chicago office and at the Brooklyn and San Francisco depots, as of December 31, 1938. Cash in stores at December 31, 1938, could not be counted by us, but we obtained confirmations from at least ten percent of your stores as to the amount of cash on hand representing store change funds and charge account funds, if any, at that date.

Reconciliation of cash in banks as of December 31, 1938, as shown by the cash books with certificates obtained directly by us from depositaries.

Test circularization of notes and accounts receivable, merchandise advances to agents, mortgages receivable, notes and accounts payable and agents' deposits.

Test checks of the accuracy of the counts made by your employees of the inventories in the Brooklyn and San Francisco depots.

Review of the method followed in taking store inventories, test checks to determine that your Home Office store inventory records are adjusted to physical inventories of stores as such physical inventories are taken. We determined that physical inventories were taken in each store in 1938 at the rate of at least twice a year. We also made the necessary test checks to assure ourselves that the merchandise inventories as of December 31, 1938 were properly priced at cost or market, whichever was lower.

Test checks of the propriety of additions during the year to fixed assets.

Test checks to determine that the prepaid items included under deferred charges as of December 31, 1938, were proper charges to future operations, and that the other items included thereunder were proper deferred items.

Review of the method used in setting up accrued liabilities and determination that the amounts provided at December 31, 1938, were substantially adequate on the basis of information obtained by us during the examination.

Review of the computation made by your accountants covering the provision for Federal income tax for the year 1938.

Investigation of the major entries to the accrued administration and reorganization expense account.

Confirmations by letter from the Trustee of the five per cent sinking fund bonds and from the mortgagees and from the registrars and transfer agents, with respect to the five per cent sinking fund bonds outstanding, real estate mortgage obligations and preferred and common stock, respectively.

Physical count of the five per cent sinking fund bonds and common stock in the treasury of your company.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company and its subsidiaries during the year under review, the position of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1938, and the results of their operations for the year ending on that date.

PRICE, WATERHOUSE & CO.

UNITED CIGAR STORE

Located at S.E. Corner of Madison Avenue and 42nd Street, New York City

Before Modernization

After Modernization

Exterior and Interior Pictures of

UNITED - WHELAN DRUG STORE

Located at 37-11 82nd Street, Jackson Heights, L. I., N. Y.

Exterior and Interior Pictures of

BEST DRUG STORE

Located at S.E. Corner of Beverly Drive and Santa Monica Boulevard, Beverly Hills, Cal.

HOME OFFICE:

330 West 42nd Street, New York, N. Y.

* * * * *

REGIONAL OFFICES:

2 Vanderbilt Avenue, New York, N. Y.
1600 Walnut Street, Philadelphia, Pa.
134 No. La Salle St., Chicago, Ill.
701 Bryant Street, San Francisco, Cal.

* * * * *

WAREHOUSES:

Bush Terminal, Brooklyn, N. Y.
701 Bryant Street, San Francisco, Cal.
1128 S. Hope St., Los Angeles, Cal.

CIGARS
UNITED
DRUGS
WHELAN